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KORN/FERRY INTERNATIONAL

1987 ANNUAL BOARD OF DIRECTORS STUDY

OF INSURANCE COMPANIES

KORN/FERRY INTERNATIONAL

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Introduction

For the past 14 years, Korn/Ferry International has surveyed 1,000 of America's leading corporations to identify significant trends at the board level and to gain insight into the structure and function of the corporate board today. As part of our annual survey, we make a special study of the data pertaining to the boards of insurance company participants.

This year, of the 532 corporations that responded to our survey, 10 percent were insurance companies. Industrial and service corporations accounted for 70 percent of the total, banks and other financial institutions, 16 percent and five percent were retail companies.

As in the past two years, we found that discussions of important board matters centered on two interrelated factors--concern over difficulties in recruiting and retaining qualified directors and issues of director liability.

The majority of our insurance respondents (65 percent) said there is still a problem finding and attracting qualified outside directors. However, 60 percent believe that increased compensation is the key to attracting potential directors.

Many insurance CEOs are not adverse to accepting an additional board seat. Of those surveyed, 52 percent said they would agree to accept the offer of a board seat.

Furthermore, only 31 percent of the insurance CEOs report having turned down a board seat in the past year compared with 42 percent of all the CEOs surveyed.

Liability Crisis

Despite the ongoing liability crisis, insurance respondents feel that measures are in place to at least partially ease the situation. Seventy-seven percent believe that the Delaware statute limiting director liability will at least partially rectify the situation.

Of the insurance companies surveyed, 23 percent are asking shareholders to approve such a measure, less than nearly all other groups. Among all the companies surveyed, 34 percent are considering taking steps to limit or eliminate liability.

Of the insurance companies doing so, 46 percent want to eliminate director liability entirely and 36 percent are considering measures that limit liability.

In the wake of these liability pressures, and perhaps because of them, 77 percent of insurance companies said their directors are probing for more information on the impact of strategic plans. Companies said their board members were seeking information particularly in the critical area of shareholder value.

These are some of the important issues that have emerged from this year's study of insurance boards. A more detailed discussion follows in the Summary of Findings.

Summary of Findings

On a question-by-question basis, the following findings are directly related to the insurance industry respondents (Table 1). Whenever appropriate, comparisons are made with all the participating corporations in our study.

1. Size of Board (Table 2)

Insurance boards consist of an average of 15 members, a decrease from the 16 members reported last year. However, this is two more than the average of 13 for all respondents. Banks and financial institutions continue to have the largest boards, averaging 18.

2. Inside Directors vs. Outside Directors (Table 2)

Insurance boards average three inside and 12 outside directors, one less outside member than reported in 1985. The averages for all respondents are three inside and 10 outside directors.

3. Is the Chairman also the CEO? Is the CEO also the COO? (Table 3)

The number of insurance company respondents with chairmen who also serve as chief executive officer was reported at 71 percent, down from 75 percent last year, and compared with the average of 77 percent for all companies. Forty-eight percent report that their chief executive officer is also their chief operating officer, higher than any other responding group.

Thirty-eight percent of all respondents reported this dual relationship.

4. Board Composition (Table 4)

Like all corporations, insurance companies select outside directors with strong managerial experience. Chief executive and chief operating officers of other companies (81 percent), academicians (71 percent) and retired executives of other companies (69 percent) comprise the three major sources of outside directors for insurance company boards. (Senior executives of other companies declined to 48 percent from 85 percent in 1985 as a result of the addition of "CEO/COO of other companies.")

For the first time, insurance company boards report the highest number of women directors. Sixty-three percent of insurers' boards seat women directors up from 54 percent five years ago and compared with the overall average of 43 percent (Table 4A). Outside women directors are drawn primarily from the ranks of academia, senior executives of other companies and chief executive and chief operating officers of other companies (Table 4B).

Representation of ethnic minorities increased from last year (25 percent) back to the level reported in 1984 (29 percent). Overall, 30 percent of this year's respondents reported seating an ethnic minority.

Attorneys who do not provide legal services to the company and academicians are the major sources for ethnic minority insurance board members (Table 4B).

As in 1985, a high percentage of insurance companies this year report seating academicians on their boards. In 1986, 71 percent were reported, up from 69 percent last year and well above the overall average of 50 percent. Other groups that are highly represented on insurance boards include attorneys who do not provide legal services to the company (56 percent), retired or previously employed corporate officers and commercial bankers (each 44 percent), and investment bankers (33 percent). Commercial bankers whose representation had doubled in 1985 to 62 percent dropped back to 44 percent, still well above the 25 percent reported by all responding companies. At the same time, representation of former government officials jumped to 42 percent this year up from 29 percent in 1985 and compared with the overall average of 28 percent (Table 4A).

5. Committees (Table 5)

The audit, executive, and compensation/personnel committees continue to be the most widely reported standing committees among the insurance respondents, as they are among all respondents. All insurance company boards report use of an audit committee, while 90 percent report an executive committee (compared with 80 percent of all respondents). Insurers

continue to lead all other responding groups in the use of the executive and finance committees. As in 1985, the percentage reporting a benefits committee continued to decline to six percent in 1986 from 14 percent last year and 16 percent in 1984, and remains the lowest reported of all responding groups. The insurers' use of a corporate ethics committee increased slightly from 10 percent in 1985 to 13 percent this year, and nearly double the seven percent reported by all respondents. Fifty-four percent have a nominating committee -- down from 58 percent in 1985 (Table 5A).

The finance and executive committees are the largest, averaging seven members, unchanged from last year. The size of the benefits committee increased to five up from three members as reported last year, whereas the corporate ethics committee decreased by one member to four. The audit, compensation/ personnel and corporate ethics committees are composed entirely of outside directors (Table 5B). The finance committee meets most frequently, averaging 12 meetings per year, up from nine meetings reported in our Tenth Annual Study (Table 5C). Forty-four percent of the insurance respondents feel that in order to improve productivity, there is a trend toward more committee-assigned tasks, compared with the overall average of 38 percent.

6. Compensation (Table 6)

Ninety percent of the participating insurance companies

compensate their outside directors on an annual plus per-meeting basis. Eight percent pay an annual fee only and only one company pays a per-meeting fee.

-Annual plus Per-Meeting Fee (90 percent of the respondents)

For all outside directors compensated with an annual plus per-meeting fee, the average earnings reported by insurance company directors were $18,863, up from $17,490 last year. The average total compensation has increased 35 percent since 1982 ($13,140) and eight percent compared with last year. However, the $18,863 is eight percent below the $20,462 yearly average reported for all respondents. The components of the total compensation include a $13,488 average annual fee and a $780 average per-meeting fee (Table 6A). The average annual retainer rose 12 percent, and the per-meeting fee jumped 25 percent from the 1985 per-meeting compensation of $625.

The upper quartile average, included in this section for comparative purposes, is $26,530, eight percent lower than the $28,715 average for all respondents (Table 6B).

7. Committee Compensation (Table 7)

Eighty-three percent of the insurers compensate their outside directors additionally for serving on a committee, the same as for all respondents. While committee members generally receive a per-meeting fee, most committee chairmen are

compensated with an annual fee (Table 7A).

-Total Annual Compensation

Including committee fees, the average total annual compensation for outside directors of insurance companies was reported at $24,406, compared with the overall average of $23,676. The upper quartile average for all insurers is $38,073, compared with the upper quartile average of $35,960 for all respondents (Table 7B).

8. Additional Compensation Information (Table 8)

Fifty-four percent of the insurance company respondents increased compensation for their board members during the past year. This is significantly higher than the 28 percent that reported raising board fees in 1985, and greater than the overall average of 39 percent. The average fee increased $2,626, three percent higher than last year's increase of $2,560, and compared with the average increase of $2,923 for all respondents. Twenty-seven percent project an increase of $3,510 during the coming year. As for all participants, 75 percent of the insurance company respondents believe that their outside directors are adequately compensated. Five years ago however, 91 percent of the insurers felt that outside director compensation was adequate.

Average total compensation for the single highest paid insurance company director was $30,756 in 1986, exclusive of consulting fees, up 23 percent from the $25,092 reported last

year, and the $21,420 as reported in our Tenth Annual Study. This represents an eight percent increase over the $28,572 paid on average to the highest compensated outside directors of all companies. Furthermore, the upper quartile average of $54,626 for insurance company directors is 17 percent above the $46,665 upper quartile average for all respondents. Only industrials with revenues over $5 billion reported a higher average for this category (Table 8). Ten companies, or 21 percent of the insurance respondents have outside directors who also receives consulting fees.

Benefits continue to be significant in compensation plans for outside directors of insurance companies. Seventy-one percent allow their outside directors to defer board fees until retirement, compared with 67 percent for all respondents, and 27 percent offer a pension/retirement income plan. Other benefits commonly offered include matching educational gifts programs (60 percent), accident insurance (42 percent) and life insurance (25 percent). Travel expense reimbursement is provided by 96 percent of the insurers, the same as last year. The practice of providing directors' liability insurance decreased to 75 percent from 92 percent in 1985.

-Stock Ownership

Fifty-eight percent of the insurance respondents believe that all directors should own some shares of company stock, the lowest of all particiating groups. In comparison, 81 percent of all respondents believe their directors should own shares of

stock. Of the 58 percent who believe that all outside insurance directors should own some company stock, the average mimimum number of shares indicated was 736.

Seventy-eight percent of the insurers report that their outside directors do, in fact, own shares of stock in the companies they serve.

-Liability Insurance

Ninety percent of the insurance company boards currently have directors' liability insurance, although six percent had been denied coverage within the past year. Seventy-five percent of the insurance companies responded that directors' liability insurance premiums were increased for those with policies up for renewal in 1986, up from 71 percent last year. The average premium increase jumped to 670 percent, up from 431 percent last year and compared with the 1986 overall average of 570 percent.

Forty-six percent of the insurance respondents experienced a decrease in total dollar coverage, up from 39 percent in 1985. The decline in total dollar coverage went from $33 million to $17 million or a 49 percent drop, compared with a 43 percent decline for all respondents (from $42 million to $24 million).

Twenty-three percent are considering self-insurance, about the same as last year and compared with the overall average of 30 percent. When asked if respondents had been approached to join a consortium, 50 percent of the insurers

reported in the affirmative, and 44 percent would consider joining it asked.

9. Board Practices and Policies (Table 9)

For the tenth consecutive year, the insurance company respondents averaged seven regular board meetings per year, one less than the average for all respondents.

An outside director of an insurance company devotes an estimated 134 hours annually to board-related business, up from 129 hours reported in 1985, and compared with 107 hours reported five years ago. This also is significantly higher than the 114-hour average reported for all respondents. The upper quartile average for insurers is 296 hours, up considerably from last year's 185 hours, and compared with the overall average of 204 hours (Table 9A).

Board chairmen of insurance companies spend considerable time on board-related activities, devoting an average 212 hours, up from 184 hours last year and more than any other responding group.

Based on reported compensation data, members of insurers' boards earned an average hourly rate of $141 this year, up from the $136 average reported in 1985. With committee fees taken into account, the average hourly rate for outside directors of insurance companies is $182, compared with $208 for all outside directors.

Twenty-one percent of the insurance respondents reported an outside director resignation during the past year, down from

26 percent last year. Fifty percent added one or more new outside directors to their boards, about the same as reported by all respondents. Twenty-five percent expect a board vacancy during the coming year.

In identifying and selecting new directors, insurance respondents continue to rely on recommendations by the board chairman and board members (each cited by 90 percent) and the use of nominating committee (reported by 63 percent), up from 52 percent in our Tenth Annual Study (Table 9B).

According to 90 percent of the insurance companies, broad management experience remains the primary consideration in asking a prospective director to sit on the board, followed by personal stature (65 percent). As in the past, strong financial skills, reported by 54 percent, up from 48 percent in 1985, was cited more than any other industry group as a primary consideration (Table 9C).

Twenty-one percent of insurance company respondents had a prospective director decline an invitation to serve on the board, up from 14 percent last year (Table 9D). Time commitment continued to be the primary reason for a prospect's declining an invitation to serve, cited by 70 percent, up considerably from 57 percent in 1985.

In 1986, eighty-three percent of the insurance respondents had mandatory retirement policies. The average retirement age was 68 for inside directors (up from 67 in 1985), 70 for outside directors, and 70 for board chairmen (up from 69 last year.)

The average age of the CEO at an insurance company is 59, and 60 for the respondents' outside directors. The average age of the youngest outside director is 46, the oldest, 71.

10. Issues (Table 10)

As with all respondents, financial results is the most important issue facing insurance company boards today. When asked to rank the relative importance of various issues, financial results placed well above the other issues. Ninety-eight percent of insurers ranked financial results first, second or third, up from 92 percent last year. Seventy-one percent placed strategic planning as the most important issue, followed by management succession, at 35 percent. Other significant issues include financing/capitalization (25 percent) and industry competition (23 percent). Day-to-day operations continued to decrease in importance from 39 percent in 1984, and 25 percent in 1985 to 17 percent this year.

Ninety percent of the insurance respondents spend the most board time on issues related to financial results, followed by strategic planning (44 percent).

When asked to project rankings for the most important issue five years from now, again, financial results placed first (83 percent), followed by strategic planning (65 percent) and industry competition (33 percent).

* * *

TABLE 1 - PARTICIPATING COMPANIES

Fifty-one of America's major insurance companies participated in our Fourteenth Annual Study.

Size (Assets)	No. of Insurers	%
Under $10 billion	40	78.4%
$10 billion and over	11	21.6%
TOTAL	51	100.0%

Stock Exchange	No. of Insurers	%
New York Stock Exchange	17	33.3%
American Stock Exchange	1	2.0%
Over-the-Counter	11	21.6%
Mutual/Private	22	43.1%
TOTAL	51	100.0%

TABLE 2 - PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Under $10 billion	3	11	14
$10 billion and over	3	15	18
Average	3	12	15

TABLE 3 - CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer? Is the Chief Executive Officer also the Chief Operating Officer?

	Chairman/CEO %	CEO/COO %
Yes	70.8%	47.9%
No	27.1%	47.9%
No response	2.1%	4.2%
	100.0%	100.0%

TABLE 4 - BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

Function	1982 Insurance Companies	1986 Insurance Companies	1986 All Companies Surveyed
CEO/COO (other company)	---	81.3%	74.2%
Retired Executive (other company)	69.6%	68.8%	67.4%
Academician	66.1%	70.8%	49.7%
Senior Executive (other company)	85.7%	47.9%	46.0%
Woman	53.6%	62.5%	42.9%
Retired or Previously Employed Corporate Officer	53.6%	43.8%	40.2%
Attorney (does not provide legal services to the company	39.3%	56.3%	35.3%
Major Shareholder (not officer of the company)	19.6%	25.0%	30.9%
Ethnic Minority Representative	28.6%	29.2%	29.5%
Former Government Official	32.1%	41.7%	27.6%
Commercial Banker	57.1%	43.8%	25.0%
"Professional" Director	17.9%	25.0%	25.0%
Investment Banker	17.9%	33.3%	24.3%
Attorney (provides legal services to the company)	21.4%	31.3%	23.7%
Non-U.S. Citizen	10.7%	6.3%	13.0%
International Executive (American)	8.9%	4.2%	6.2%

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	33.3%	42.9%
Senior Executives (other companies)	20.0%	--
CEOs/COOs (other companies)	20.0%	14.3%
"Professional" directors	16.7%	7.1%
Attorneys (do not provide legal services)	16.7%	50.0%
Former Government Officials	16.7%	7.1%

TABLE 5 - COMMITTEES

5A. Which of the following standing committees does the board have?

Committee	1982 Insurance Companies	1986 Insurance Companies	1986 All Companies Surveyed
Audit	98.2%	100.0%	97.5%
Compensation/Personnel	78.6%	72.9%	90.5%
Executive	91.1%	89.6%	80.4%
Nominating	46.4%	54.2%	57.9%
Finance	60.7%	70.8%	34.6%
Benefits	17.9%	6.3%	25.0%
Public Affairs	16.1%	16.7%	9.9%
Corporate Ethics	16.1%	12.5%	7.2%

5B. What is the composition of each committee?

Committee	Average Inside Directors	Average Outside Directors	Average Number Directors
Audit	0	4	4
Compensation/Personnel	0	4	4
Executive	2	5	7
Nominating	1	4	5
Finance	2	5	7
Benefits	1	4	5
Public Affairs	1	5	6
Corporate Ethics	0	4	4

5C. How many committee meetings were held during the past twelve months?

Committee	1982 Average No. of Meetings	1985 Average No. of Meetings	1986 Average No. of Meetings
Audit	3	3	4
Compensation/Personnel	4	3	4
Executive	6	6	6
Nominating	2	2	2
Finance	9	13	12
Benefits	2	2	3
Public Affairs	4	4	3
Corporate Ethics	3	3	2

TABLE 6 - COMPENSATION

6A. Annual plus Per-Meeting Fee (90.0% of the Respondents)

Annual Fee Amount	%
Under $5,000	4.7%
$ 5,000 - $ 6,999	4.7%
$ 7,000 - $10,999	18.6%
$11,000 - $13,999	23.2%
$14,000 and over	48.8%
TOTAL	100.0%
Average Annual Fee	$13,488

PLUS

Amount Per Meeting	%
Under $250	4.7%
$250 - $499	2.3%
$500 - $599	18.6%
$600 - $799	39.5%
$800 and over	34.9%
TOTAL	100.0%
Average Per-Meeting Fee	$780

EQUALS

Total Annual Compensation	%
Under $7,000	2.2%
$ 7,000 - $10,999	7.0%
$11,000 - $13,999	4.7%
$14,000 - $16,999	23.3%
$17,000 - $19,999	16.3%
$20,000 - $24,999	34.9%
$25,000 and over	11.6%
TOTAL	100.0%
Average Total Annual Compensation	$18,863

6B. Annual plus Per-Meeting Fee (continued)

Type and Size of Company	Average Compensation	Upper Quartile Average
Insurance Companies	$18,863	$26,530
Banks & Other Financial Institutions	$18,471	$27,519
Retailers	$22,249	$30,875
Service Companies	$20,653	$28,542
Industrials		
Under $200 million	$14,207	$22,768
$200 million - $399 million	$15,560	$22,386
$400 million - $599 million	$17,011	$22,060
$600 million - $999 million	$20,593	$27,188
$1 billion - $2.999 billion	$21,279	$27,223
$3 billion - $4.999 billion	$26,447	$32,270
$5 billion and over	$28,820	$34,671
Average	$20,462	$28,715

TABLE 7 - COMMITTEE COMPENSATION

7A. What is the average committee fee for outside directors?

Committee	Member	Chairman
	Average Per-Meeting Fee	Average Retainer
Audit	$629	$3,153
Compensation/Personnel	$597	$3,400
Executive	$606	$3,293
Nominating	$615	$3,500
Finance	$668	$3,331
Benefit	$600	$2,250

7B. What is the average total annual compensation, including committee fees, for outside directors?

Type and Size of Company	1986 Average	1986 Upper Quartile Average
Insurance companies	$24,406	$38,073
Banks and Other Financial Institutions	$21,500	$33,168
Retailers	$25,999	$41,663
Service Companies	$23,482	$34,907
Industrials		
Under $200 million	$15,290	$24,483
$200 million - $399 million	$17,110	$25,113
$400 million - $599 million	$19,700	$28,875
$600 million - $999 million	$22,414	$31,875
$1 billion - $2.999 billion	$25,146	$31,895
$3 billion - $4.999 billion	$31,399	$39,121
$5 billion and over	$36,548	$48,428
Average	$23,676	$35,960

TABLE 8 - ADDITIONAL COMPENSATION INFORMATION

How much did the highest paid director receive in 1986 for all board services exclusive of any consulting arrangement?

Amount	%
Under $11,000	6.5%
$11,000 - $16,999	10.9%
$17,000 - $24,999	21.7%
$25,000 - $29,999	17.4%
$30,000 - $39,999	19.6%
$40,000 and over	23.9%
TOTAL	100.0%
Average	$30,756

Type and Size of Company	Average Compensation	Upper Quartile Average
Insurance Companies	$30,756	$54,626
Banks & Other Financial Institutions	$28,962	$48,706
Retailers	$27,051	$46,080
Service Companies	$27,890	$43,353
Industrials		
Under $200 million	$18,075	$27,639
$200 million - $399 million	$20,111	$31,534
$400 million - $599 million	$19,288	$26,900
$600 million - $999 million	$25,526	$38,211
$1 billion - $2.999 billion	$29,297	$41,511
$3 billion - $4.999 billion	$37,184	$50,677
$5 billion and over	$48,366	$81,151
Average	$28,572	$46,665

TABLE 9 - BOARD PRACTICES AND POLICIES

9A. How many hours (estimated) do directors spend annually on board matters including review and preparation time, meeting attendance and travel?

Number of Hours	%
Under 40	4.2%
41 - 70	14.6%
71 - 100	27.1%
101 - 130	16.7%
131 - 160	10.4%
161 and over	16.7%
No Response	10.3%
TOTAL	100.0%
Average	134 Hours

Type and Size of Company	Number of Hours	Upper Quartile Average
Insurance Companies	134	296
Banks & Other Financial Institutions	107	183
Retailers	86	134
Service Companies	108	197
Industrials		
Under $200 million	94	149
$200 million - $399 million	99	184
$400 million - $599 million	106	200
$600 million - $999 million	120	215
$1 billion - $2.999 billion	109	174
$3 billion - $4.999 billion	137	249
$5 billion - and over	153	254
Average	114	204

9B. How are outside directors located for the board?

	%
Recommended by chairman	89.6%
Recommended by board members	89.6%
Nominating committee	62.5%
Recommended by other corporate officers	41.7%
Referred by executive acquaintances	12.5%
Executive search	10.4%

9C. What are the primary considerations in asking a prospective director to sit on the board?

	%
Broad Management Experience	89.6%
Personal Stature	64.6%
Strong Financial Skills	54.2%
Specific Industry Experience	45.6%

9D. Have any prospective directors declined an invitation to serve on the board during the past year?

	% 1985	% 1986
Yes	13.7%	20.8%
No	86.3%	79.2%
TOTAL	100.0%	100.0%

If yes, what are the predominant reasons?

	%
Time commitment	70.0%
Conflict of interest	50.0%
On too many boards	10.0%
Increasing legal liability	10.0%

TABLE 10 - ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	56.3%	93.8%	97.9%
Strategic planning	22.9%	43.8%	70.8%
Management succession	12.5%	20.8%	35.4%
Financing/Capitalization	--	6.3%	25.0%
Industry competition	12.5%	14.6%	22.9%
Day-to-day operations	4.2%	10.4%	16.7%
Mergers/Acquisitions	--	2.1%	8.3%
Executive compensation	--	--	6.3%
Shareholder relations	--	2.1%	4.2%

PROFILE OF KORN/FERRY INTERNATIONAL

Korn/Ferry International is the largest executive search firm in the world today.

Headquartered in New York and Los Angeles, Korn/Ferry maintains a worldwide network of 37 offices in 16 countries.

Korn/Ferry's practice is broad-based, serving the specific needs of clients through 10 specialty search divisions:

Board Services
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Entertainment
Fashion/Retail
Financial Services
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Health Care
High Technology
Hospitality/Leisure
Real Estate

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